

AMENDED IN ASSEMBLY APRIL 11, 2007

CALIFORNIA LEGISLATURE—2007—08 REGULAR SESSION

ASSEMBLY BILL

No. 579

Introduced by Assembly Member Swanson

February 21, 2007

~~An act to amend Section 7115 of the Government Code, and to add Sections 17237 and 24384.7 to the Revenue and Taxation Code, relating to military base recovery areas.~~
An act to amend Section 7110.5 of the Government Code, relating to military base recovery areas.

LEGISLATIVE COUNSEL'S DIGEST

AB 579, as amended, Swanson. ~~Income and corporation taxes: deduction: net interest. Military base recovery areas.~~

Existing law authorizes a local governing body, as defined, to propose to the Department of Housing and Community Development a local agency military base recovery area to receive specified economic incentives to offset military base closures. The designations are binding for a period of 8 years.

This bill would make the designation binding for an additional 7 years if specified conditions occur, as provided.

~~The Personal Income Tax Law and the Corporation Tax Law authorize various tax incentives with respect to local agency military base recovery areas.~~

~~This bill would, under both laws, allow a deduction for the amount of net interest received by a taxpayer in payment on indebtedness of a person or entity engaged in the conduct of a trade or business located in a local agency military base recovery area. This bill would also require a specified report to contain specified information regarding~~

~~financial information in connection with local agency military base recovery areas, as provided.~~

~~This bill would require the governing body of a local agency military base recovery area to provide information to be used in the preparation of this report.~~

~~The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.~~

~~This bill would provide that no reimbursement shall be made pursuant to these statutory provisions for costs mandated by the state pursuant to this act, but would recognize that local agencies and school districts may pursue any available remedies to seek reimbursement for these costs.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: ~~yes~~ *no*.

The people of the State of California do enact as follows:

1 SECTION 1. The Legislature finds and declares all of the
2 following:

3 (a) The health, safety, and welfare of the people of California
4 depend upon the development, stability, and expansion of private
5 business, industry, and commerce, and that there are certain areas
6 within the state that have been and will be severely economically
7 impacted because of the closure of military bases by the federal
8 Department of Defense.

9 (b) The closure of 29 major military bases resulted in a loss of
10 nearly 54 percent of the state’s military personnel since 1988 which
11 translates into a loss of more than 93,000 California military and
12 civilian jobs. California has recaptured less than 60 percent of
13 those jobs since the rounds of base closures began. Military base
14 closures have resulted in a loss of \$10 billion in annual revenues.

15 (c) That many communities want and need to attract new
16 business and private investment to compensate for the loss of
17 revenue that occurs when a military base closes or downsizes, but
18 that many communities have insufficient means to do so.

19 SEC. 2. *Section 7110.5 of the Government Code is amended*
20 *to read:*

21 7110.5. A designation of a local agency military base recovery
22 area pursuant to Section 7110 shall be for ~~an eight-year period,~~

1 that shall expire eight years after the department has determined
2 that the later of the following conditions has been met: a 10-year
3 period. However, the designation period shall expire 10 years
4 after the fifth year of the designation period if both of the following
5 apply:

6 (a) The governing body has notified the department that legal
7 title to the economic development parcels at the former base has
8 not been transferred to the governing body and, in cases in which
9 early transfer authority has been exercised, the terms and conditions
10 necessary for satisfying the requirements of Section 9601 and
11 following of Title 42 of the United States Code are met and
12 regulatory closure has occurred.

13 (b) ~~The governing body has notified the department that~~
14 ~~vouchers have been issued to an employer that has entered into a~~
15 ~~lease or received title to property located within the local agency~~
16 ~~military base recovery area. The condition specified in subdivision~~
17 ~~(a) has impeded the successful utilization of the incentive program~~
18 ~~as determined by the department in the fifth year of the designation~~
19 ~~period.~~

20 SEC. 2. ~~Section 7115 of the Government Code is amended to~~
21 ~~read:~~

22 ~~7115. In addition to the requirements of Section 70851,~~
23 ~~beginning in October 2008, the department shall biennially submit~~
24 ~~a report to the Legislature which:~~

25 (a) ~~Evaluates the effect of the program on employment,~~
26 ~~investment, and incomes, and on state and local tax revenues in~~
27 ~~designated local agency military base recovery areas. Among other~~
28 ~~information, the report shall indicate, by local agency military base~~
29 ~~recovery area, the amount of private debt and equity investments~~
30 ~~made within the area during the reporting period and since the~~
31 ~~transfer of the land from the military.~~

32 (b) ~~Indicates whether the number of existing local agency~~
33 ~~military base recovery areas should be expanded, by how many,~~
34 ~~and under what applicable time schedules.~~

35 (c) ~~Information from the Franchise Tax Board on the dollar~~
36 ~~value of local agency military base recovery area tax credits that~~
37 ~~are claimed each year by businesses.~~

38 (d) ~~A local agency military base recovery area governing body~~
39 ~~shall provide information, at the request of the department,~~
40 ~~necessary for the department to prepare the report.~~

1 SEC. 3.— Section 17237 is added to the Revenue and Taxation
2 Code, to read:

3 17237. (a) There shall be allowed as a deduction the amount
4 of net interest received by the taxpayer in payment on indebtedness
5 of a person or entity engaged in the conduct of a trade or business
6 located in a local agency military base recovery area.

7 (b) No deduction shall be allowed under this section unless, at
8 the time the indebtedness is incurred, each of the following
9 requirements are met:

10 (1) The trade or business qualifying the lender for the deduction
11 is physically located within a local agency military base recovery
12 area.

13 (2) The indebtedness is incurred solely in connection with
14 activity within the local agency military base recovery area. The
15 taxpayer shall establish loan covenants that require that the
16 proceeds from loans are spent within the local agency military
17 base recovery area.

18 (3) The taxpayer has no equity or other ownership interest in
19 the debtor.

20 (c) Within 90 days of the loan closing, the taxpayer is required
21 to notify the local agency military base recovery area, where the
22 qualifying trade or business is located, of the total amount of
23 indebtedness authorized and whether the indebtedness is
24 appropriate to be reported under the taxpayer’s requirements set
25 forth in the federal Community Reinvestment Act.

26 (d) “Local agency military base recovery area” means an area
27 designated as a local agency military base recovery area pursuant
28 to Chapter 12.97 (commencing with Section 7107) of Division 7
29 of Title 1 of the Government Code.

30 SEC. 4.— Section 24384.7 is added to the Revenue and Taxation
31 Code, to read:

32 24384.7. (a) There shall be allowed as a deduction the amount
33 of net interest received by the taxpayer in payment on indebtedness
34 of a person or entity engaged in the conduct of a trade or business
35 located in a local agency military base recovery area.

36 (b) No deduction shall be allowed under this section unless, at
37 the time the indebtedness is incurred, each of the following
38 requirements are met:

1 ~~(1) The trade or business qualifying the lender for the deduction~~
2 ~~is physically located within a local agency military base recovery~~
3 ~~area.~~

4 ~~(2) The indebtedness is incurred solely in connection with~~
5 ~~activity within the local agency military base recovery area. The~~
6 ~~taxpayer shall establish loan covenants that require that the~~
7 ~~proceeds from loans are spent within the local agency military~~
8 ~~base recovery area.~~

9 ~~(3) The taxpayer has no equity or other ownership interest in~~
10 ~~the debtor.~~

11 ~~(e) Within 90 days of the loan closing, the taxpayer is required~~
12 ~~to notify the local agency military base recovery area, where the~~
13 ~~qualifying trade or business is located, of the total amount of~~
14 ~~indebtedness authorized and whether the indebtedness is~~
15 ~~appropriate to be reported under the taxpayer's requirements set~~
16 ~~forth in the federal Community Reinvestment Act.~~

17 ~~(d) "Local agency military base recovery area" means an area~~
18 ~~designated as a local agency military base recovery area pursuant~~
19 ~~to Chapter 12.97 (commencing with Section 7107) of Division 7~~
20 ~~of Title 1 of the Government Code.~~

21 ~~SEC. 5. No reimbursement shall be made pursuant to Part 7~~
22 ~~(commencing with Section 17500) of Division 4 of Title 2 of the~~
23 ~~Government Code for costs mandated by the state pursuant to this~~
24 ~~act. It is recognized, however, that a local agency or school district~~
25 ~~may pursue any remedies to obtain reimbursement available to it~~
26 ~~under Part 7 (commencing with Section 17500) and any other~~
27 ~~provisions of law.~~